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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

June 1, 2000

**Ex Parte**

Ms. Magalie R. Salas  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW  
TW-A325 - 12<sup>th</sup> Street Lobby  
Washington, DC 20554

Re: CC Docket No. 98-137 -- In the Matter of 1998 Biennial Review -- Review of  
Depreciation Requirements for Incumbent Local Exchange Carriers

CC Docket No. 99-117 -- In the Matter of 1998 Biennial Regulatory Review --  
Petition for Section 11 Biennial Review filed by SBC Communications Inc.,  
Southwestern Bell Telephone

ASD File No. 98-26 -- USTA Petition For Forbearance from Depreciation  
Regulation

Dear Ms. Salas:

Today, the attached letter regarding depreciation was submitted to Ms. Carol Matthey on behalf of the ILEC members of the Coalition for Affordable Local and Long Distance Service ("CALLS"). The letter and attachment responds to inquiries made by Ms. Matthey in a May 25, 2000 meeting with the aforementioned parties (Ex Parte filed on May 25, 2000).

An original and one copy of this Ex Parte are being filed in the Office of the Secretary on June 1, 2000. Please include it in the public record of these proceedings as required under Section 1.1206(b)(2) of the Commission's rules.

Sincerely,

Attachment

cc: Ms. JoAnn Lucanik  
Ms. Carol Matthey

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Dear Ms. Salas:

Today, the attached letter regarding depreciation was submitted to Ms. Carol Mattey on behalf of the ILEC members of the Coalition for Affordable Local and Long Distance Service ("CALLS"). The letter and attachment responds to inquiries made by Ms. Mattey in a May 25, 2000 meeting with the aforementioned parties (Ex Parte filed on May 25, 2000).

An original and one copy of this Ex Parte are being filed in the Office of the Secretary on June 1, 2000. Please include it in the public record of these proceedings as required under Section 1.1206(b)(2) of the Commission's rules.

Sincerely,

A handwritten signature in black ink, appearing to read "M. A. Thomas".

Attachment

cc: Ms. JoAnn Lucanik  
Ms. Carol Mattey



June 1, 2000

Ms. Carol Matthey  
Federal Communications Commission  
The Portals, Room 5-B125  
445 12<sup>th</sup> Street, SW  
Washington, DC 20554

**RE: Review of Depreciation, CC Docket 97-137**

Dear Ms. Matthey,

In our meeting on May 25, 2000 with Gerald Asch - Bell Atlantic, Mary Henze - BellSouth, Scott Randolph - GTE, Joan Lucanik - FCC and me, you asked what the impact would be on the rate base of taking the proposed amortization above-the-line versus taking it below-the-line.

In response to your question, the amortization of the reserve difference between the FCC and SEC levels will increase depreciation reserve, just as plant depreciation increases depreciation reserve. Depreciation reserve is subtracted from plant-in-service in computing rate base. Each annual installment of this difference will decrease the rate base by the amount of the amortization over a five-year period. Regardless of whether the annual amortization was above- or below-the-line, the total reduction in the rate base is identical.

I have also attached, per your request, an illustrative example of impacts of an above-the-line amortization of the depreciation reserve difference on interstate rate bases and cost of service.

This response is being submitted on behalf of the CALLS ILEC representatives. Please let any of the above mentioned participants or me know if you have any further questions.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michelle Thomas", written over a horizontal line.

Attachment

cc: Ms. JoAnn Lucanik

**ABOVE-THE-LINE AMORTIZATION  
DEPRECIATION RESERVE DIFFERENCE BETWEEN FCC & SEC LEVELS  
EXAMPLE OF IMPACTS TO INTERSTATE RATEBASE & COST OF SERVICE  
DR/(CR)**

|   |  |                              |                                   |                       |                            |                        |        |        |        |        | MR<br>Reporting<br>Amounts<br>After<br>Amortization |
|---|--|------------------------------|-----------------------------------|-----------------------|----------------------------|------------------------|--------|--------|--------|--------|---|
| Line<br>#                               | Account Title                            | Part 32<br>Account<br>Number | Financial<br>Reporting<br>Amounts | Reserve<br>Difference | MR<br>Reporting<br>Amounts | MR Amortization Period |        |        |        |        |   |
|   |  |                              |                                   |                       |                            | Year 1                 | Year 2 | Year 3 | Year 4 | Year 5 |   |
| <b><u>IMPACT ON RATEBASE</u></b>        |  |                              |                                   |                       |                            |                        |        |        |        |        |   |
| 1)                                      | Telecommunications Plant in Service      | 2001                         | 100                               |                       | 100                        | 100                    | 100    | 100    | 100    | 100    | 100   |
| 2a)                                     | Accum. Depr. Reserve-Pre MR Amortization |                              | (65)                              | (15)                  | (50)                       | (50)                   | (50)   | (50)   | (50)   | (50)   | (50)  |
| 2b)                                     | Accum Depr. Reserve-Amort. Difference    |                              |                                   |                       |                            | (3)                    | (6)    | (9)    | (12)   | (15)   | (15)  |
| 2)                                      | Accumulated Depreciation Reserve         | 3100                         | (65)                              | (15)                  | (50)                       | (53)                   | (56)   | (59)   | (62)   | (65)   | (65)  |
|   |  |                              | (C)                               | (D)                   |                            |                        |        |        |        |        | (C)   |
| 3)                                      | Plant in Service Net of Reserve          | L1 - L2                      | 35                                |                       | 50                         | 47                     | 44     | 41     | 38     | 35     | 35  |
| <b><u>IMPACT ON COST OF SERVICE</u></b> |  |                              |                                   |                       |                            |                        |        |        |        |        |   |
| 4)                                      | Depr. Exp.- Reserve Amort. Difference    | 6561                         |                                   |                       |                            | 3                      | 3      | 3      | 3      | 3      | 15  |

(D)

**NOTES**

- (A) The above example reflects the impacts to interstate ratebase & cost of service associated with a five year above-the-line amortization of the reserve difference.
- (B) For simplicity, the example reflects only the impacts to accum. depr. reserve & depr. expense and ignores tax and ongoing operating impacts over the 5 years.
- (C) Upon completion of the 5 year amortization, Financial Reporting and MR accumulated depreciation reserves are consistent.
- (D) The reserve difference is recognized in cost of service via amortization within the depreciation expense account.